

Grazing Management

In 2012, 18 conflicted grazing lease auctions were held in southern Idaho resulting in \$555,000 in premium bids.

A total of 16,644 acres and 4,678 AUMs were auctioned, including the recently acquired Crane Creek allotment in eastern Idaho, which alone generated \$49,250 dollars for the endowment trusts.

Another issue that stole the spotlight was the potential listing of sage grouse and the Governor's successful sage grouse task force. The IDL participated in the task force's efforts, providing essential information about impacts of a listing on IDL as a landowner and to our customers who use the land as well.

Recreation

The 2.4 million acres of state endowment trust land are open to dispersed recreation statewide. That means there are no exhausting administrative procedures or confusing travel plans for recreating on state endowment trust land.

While the Land Board allows incidental recreation in some areas where heavy recreation has caused damage to the trust asset or causes safety concerns, the IDL Area Manager uses targeted management and restricts access or recreation as needed to protect the lands' primary purpose—to earn money for the trust beneficiaries.

In 2012, a few recreation-related issues came up in the news, such as hunters shooting too closely to homes on state endowment trust land in North Idaho, and heavy litter and damage at the endowment-owned Perrine Block near Twin Falls. In these cases and others, the IDL manages the impacts of recreation at a local level.

MOSS Land Exchange

The IDL exchanged the University of Idaho (UI) McCall Outdoor Science School (MOSS) for a commercial building in Idaho Falls, which houses Battelle Energy Alliance. After the exchange with a private landowner was complete, the UI worked with the private broker to acquire the campus for its continued use in the future.

These were win-win-win transactions, with the endowment trust acquiring a property that immediately and in the long run produces much higher returns; a private landowner meeting personal business and real estate objectives; and the UI being able to continue the outstanding outdoor education provided at MOSS.

Oil and Gas

The IDL functions as a leasing agent for endowment- and other state-owned lands and mineral rights.

We also are the regulatory agency that oversees the exploration, drilling and production of oil and gas resources on private, state and federal land in Idaho.

In 2012, IDL issued several new oil and gas leases for the use of endowment and other state-owned mineral lands in western Idaho. The IDL also permitted 32,000 acres of 3D seismic exploration and 30 miles of 2D seismic exploration, mostly in Payette County. There have been 11 wells drilled to date (and no hydraulic fracturing or "fracking" permits have been issued) but there is still no production of natural gas resources in Idaho.

Riverbed Mining on the Salmon River

In addition to managing Idaho's endowment trust assets for the benefit of specific institutions, the IDL also manages Idaho's public trust lands – the beds and banks beneath Idaho's navigable waterways – for the benefit of all Idahoans. Navigability determinations are made by the courts, the Land Board, or both.

Riverbed mineral leasing – including riverbed gravel mining and riverbed gold mining in the Salmon River – received attention in 2012.

A few things are important to keep in mind about riverbed leasing activities:

- (1) Issuing leases for land is not the same as regulating the type of activity that happens on the land. The IDL and the Land Board have the authority to issue leases for public trust lands, but other state and federal agencies are responsible for permitting the activity in accordance with certain environmental standards.
- (2) All but 60 miles of the Salmon River is closed to any kind of mining. That means miners have only 60 miles during a few months of the year to use this public resource for mining purposes, but other uses are allowed along the entire river all months of the year.
- (3) The Idaho Constitution established that public trust lands are to be managed for *all* Idahoans – anglers, recreationists, miners, and others alike.



Issues that Received Public or Media Attention in 2012

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Fire Management

The year 2012 claimed one of the worst fire seasons in Idaho's recorded history, in terms of acres burned. The 1.7 million acres of Idaho land that burned accounted for nearly 20 percent of all acres burned in the United States in 2012.

However, on the 6.2 million acres of mostly State and private land that received fire protection from IDL, the total acres burned in 2012 were only half of the 20-year average. A combination of active land management on state and private lands, the IDL initial attack fire management practices, and favorable weather patterns contributed to this positive outcome.

Timber Management

A record 330 million board feet of timber valued at more than \$50 million was harvested by professional logging contractors on state endowment trust lands in FY12. The record harvest was driven by a combination of factors including market demand, reduced availability of timber from private lands during the downturn in the economy, and a significant amount of state timber under contract.

The harvest represented about 35 percent of the total timber harvested in the State of Idaho, and state-managed forests account for only five percent of Idaho's forests. Idaho's public schools are the largest beneficiary of the revenue generated from harvesting timber on state endowment trust lands.

Additionally, active management of state forests leads to healthy lands and reduces the risk of catastrophic wildfires, relieves the tax burden on the hardworking people of this state, and provides jobs for our citizens.

The money for schools, jobs for Idaho citizens and the overall economic benefits of the record harvest would not be possible without an emphasis in reforestation practices. In FY12 the IDL planted more than 1,360,000 seedlings on more than 4,000 acres. The remaining areas that are not planted regenerate naturally by leaving trees within the harvest units to provide seed.

Federal land management

The IDL and the Land Board will continue to provide information and monitor discussions about state management of federal land. As requested, the IDL will share information about how our active management of state endowment trust lands keeps the lands healthy while generating money for schools and other public institutions, and creating jobs for Idaho citizens in our use of the private sector to carry out our work.

Residential Management

Cottage Sites

The endowment trust owns thousands of acres of land at Priest and Payette Lakes and leases more than 500 cottage site lots. The Land Board voted to divest the state's interest in the lots over time (because of difficulties in acquiring market rent on the properties) and reinvest in more stable assets that produce higher returns.

In order to prepare the lots for future transactions, for the past two years the IDL has been engaged in "Lot Solutions," a process of formally planning, surveying, and platting cottage site subdivisions. The process prepares the sites for future transactions, mostly by sale (auction) and exchange. The IDL is nearing completion of the process. The Land Board has specified that a cottage site lot cannot be put up for sale or included in a proposed exchange without the willingness of the current lessee. The IDL expects the first auction involving cottage sites to take place in 2013. Bidders would acquire both the lot and the lessee-owned improvements (the cabins) at the same time.

Since it would be imprudent to put a significant number of cottage sites on the open real estate market at once, leasing of cottage sites will continue into the future. As a result of the Idaho Supreme Court ruling in *Wasden v. Land Board* in 2012 (which rejected a 1990 law that excluded cottage site leases from the Constitutional public auction requirement), all expiring cottage site leases now are open for competitive bid.

When is a public auction required?

The public auction requirement received some attention in 2012. The Idaho Constitution requires a public auction for the disposal of state endowment trust land. Over time the courts have recognized "disposal" to include not just the sale of state endowment trust land, but conflicted leases as well. *Conflicted* means that more than one party is interested in leasing the same endowment-owned property under the same terms.

The IDL informs the market about expiring leases and new lease applications (that is, instances in which the IDL receives lease applications proposing to use the land in a way that is considered new for that location) by advertising all of these instruments.

If no other individual or party interested in that land emerges after the advertisement, then the lease is finalized without having to hold a public auction.

Commercial Management

10 Barrel

The privately owned restaurant and brewery 10 Barrel will open its doors in an endowment-owned property in downtown Boise in 2013.

Similar to the way the IDL invests in tree planting projects to maintain the productivity of an endowment forest, the IDL makes investments in endowment-owned buildings to maintain their leasability. The portion of tenant improvements paid by IDL for the building in which 10 Barrel will be located would have been completed for *any* tenant to lease the property, not just 10 Barrel. Also, in using Full Service Leases at market rent rates there is no competitive advantage over private sector leasing; IDL lease rates for this building are equal to rates for similar private properties in the area.

Protections have been and will continue to be in place to guard the endowment trust's investment in the property if the tenant is unable to fulfill contractual obligations due to licensing or other issues. Over the term of the lease with 10 Barrel, the estimated Return on Asset will increase from 8.5 percent to 13.5 percent for the beneficiaries of the property.

Affordable Self Storage

In 2012 the IDL continued to receive attention for the endowment trust's ownership of a property with a business name called Affordable Self Storage. Part of acquiring the property and being able to receive the financial returns that come with leasing storage unit space was to acquire the existing business's name, Affordable Self Storage. No premium price was paid for the ability to use the facility's existing name.

Other than the ownership of a business name, the IDL does not own and operate a business in the traditional sense. The endowment trust pays a private third party contractor to run the day-to-day management of the facility; no State of Idaho employees work at Affordable Storage. The operator does not charge less for storage space than competing businesses in the area, and any loss in county tax revenue by the transition of this property from private ownership to State ownership is offset by the increased returns to public schools. Storage units are recognized by the real estate industry to be one of the most stable and least risky investments in the marketplace.